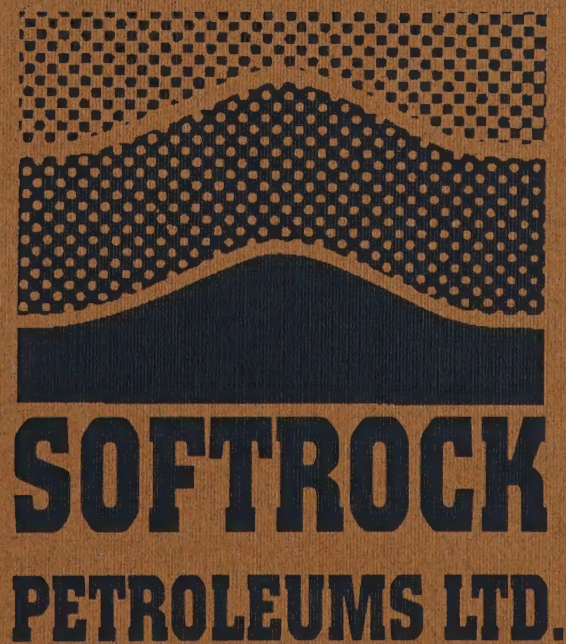


Winepear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

1994

Annual

Report



Corporate Profile

SOFTROCK PETROLEUMS LTD.

is an active oil and gas company involved in the exploration, development and acquisition of oil and gas reserves. 1994 was Softrock's first full year of operations after completing its initial public offering as a Junior Capital Pool (JCP) corporation in October, 1993. Softrock acquired Petromax Resources Inc. at the end of 1993 and this qualified as Softrock's 'Major Transaction' enabling the shares to be traded on the regular board of the Alberta Stock Exchange under the symbol 'STZ'. Softrock currently has an interest in oil production at Grand Forks in Southern Alberta and Chigwell in Central Alberta. Gas production comes from Forestburg, also in Central, Alberta. In addition, production should commence in mid-1995 at Softrock's significant gas discovery at Beaverhill Lake near Edmonton. Softrock has various interests in 3,564 acres of exploration leases in Alberta and is negotiating the purchase of a 10% interest in an Exploration Permit in Turkey.

Report to Shareholders

During 1994 Softrock pursued an active drilling program by participating with industry partners in the drilling of five gross wells (0.81 net wells) resulting in one shut-in Ellerslie Formation gas well, one potential Nisku oilwell and three abandonments. Most wells were of an exploratory nature where risk was comparatively high but commensurate with the rewards that could be reasonably expected if successful. The prospects were almost evenly split between oil and gas.

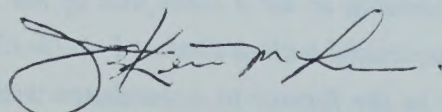
With equity financings tightening for junior oil companies in 1994 the management of Softrock felt that the best strategy for growth was to position the company in a number of high quality exploratory-type prospects having the potential to generate good cash flow in the short term. An alternative strategy would have involved the issue of a large number of shares at relatively low prices. Increased competition for land in 1994 resulted in all-time high prices and for this reason Softrock pursued farm-in arrangements because of the advantageous tax treatment of drilling expenses as opposed to land acquisitions. The company currently has undeveloped land holdings at Enchant and Alderson in Southern Alberta and Strome in Central Alberta. Production comes from Grand Forks in Southern Alberta and Chigwell and Forestburg, in Central Alberta. Approximately 52% of Softrock's revenue is generated by natural gas sales and 48% from oil production.

Subsequent to year end the company has committed to a farmout and option agreement in West Central Alberta. The prospect covers 7 3/4 sections of Crown leases prospective in the Nordegg Formation and could net to Softrock approximately 8.5 bcf of sales gas reserves before royalty, and production of approximately 2.5 mmcf/d. The agreement is subject to obtaining sufficient financing.

Although none of the directors or officers of Softrock are paid any salary, they have a vested interest in the present and future profitability of the company through their control of 69.6% of the issued common shares. An attempt has been made to keep all general and administrative costs at an absolute minimum. As with most start-up companies the largest percentage of administrative costs are from legal, accounting and trust company expenses. Softrock's long term debt is zero.

Softrock views the recent industry slow down as an opportunity to generate prospects at a more reasonable cost in 1995. The company is currently discussing with a number of sources different financial arrangements whereby Softrock could not only complete the aforementioned Nordegg gas play but also some other opportunities that have been evaluated.

ON BEHALF OF THE BOARD OF DIRECTORS



J.B. KEITH MCLEAN
President and C.F.O.

Exploration Operations

Beaverhill Lake Prospect

Softrock participated for a 5.78% WI in the BHL 14-8-52-20-W4M Ellerslie Formation gas well located at Beaverhill Lake, Alberta, southeast of Edmonton. Softrock and partners pooled lands with Archer Resources Ltd. to directionally drill under Wanasan Lake. Drill stem tests were very good, indicating an absolute open flow potential of 14.95 mmcf/d. It is expected that the well will be tied-in to production facilities in June, 1995. An offsetting well has produced gas at combined rates of up to 4 mmcf/d from the Glauconitic and Ellerslie Formations. A follow up well on adjacent land at 16-5-52-20-W4 was dry and abandoned. Softrock's interest was 5%.

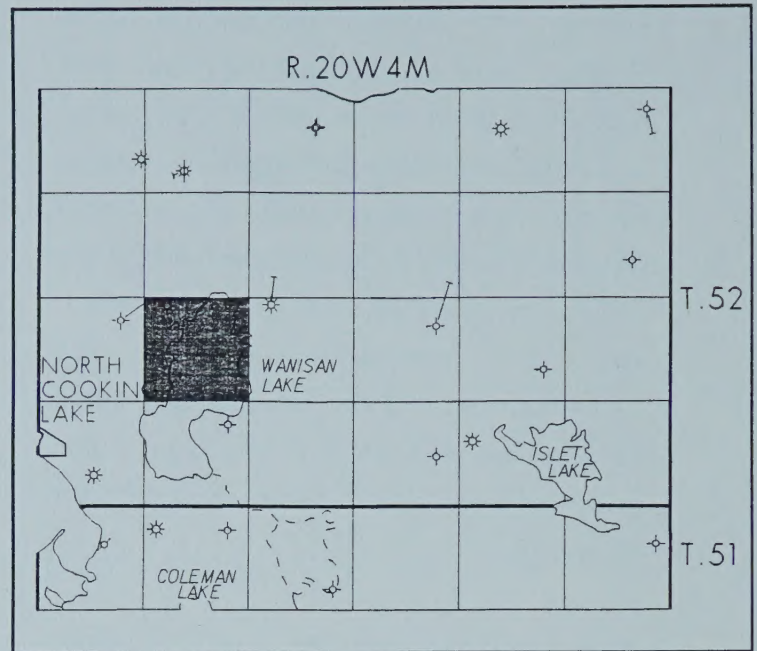


Figure 1: Beaverhill Lake Prospect

Alderson Prospect

During the first quarter of 1994 Softrock and its joint partners Dekalb Energy Canada Ltd. and Fort Point Resources Inc. conducted extensive 2-D and 3-D seismic programs over portions of a large 90,000 acre block of farmout lands comprising the deep rights. These lands are prospective in the Nisku Formation and, to a lesser degree, in the Mississippian. These rights are virtually unexplored even though Nisku oil is currently being produced from approximately 50 wells on lands flanking the farmout block on the south west. Softrock has a 10% interest in this play. Three drilling locations were selected and two were drilled during the year.

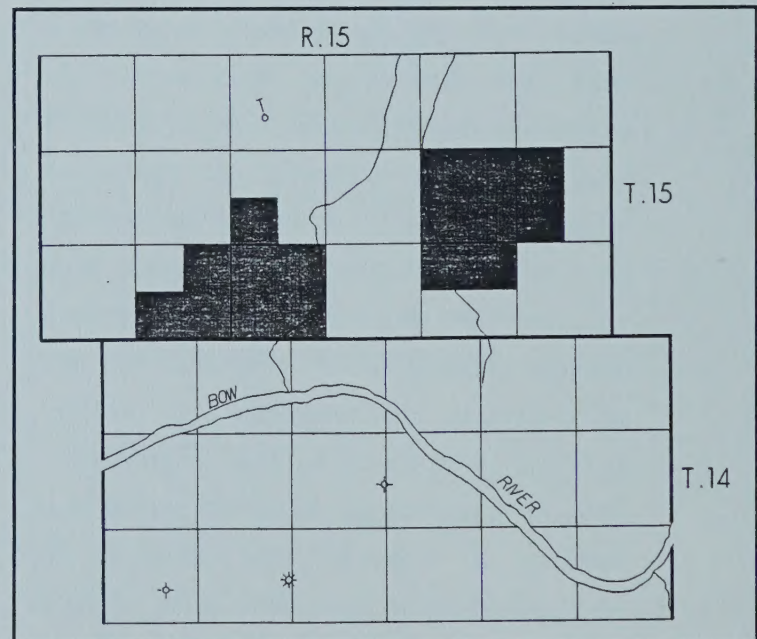


Figure 2: Alderson Prospect

The well drilled at 3-11-15-15-W4 was cased and completed in the Nisku Formation after encountering light gravity sweet crude oil. The partners are currently planning to do a sand frac of the well in the hope of obtaining commercial production. An earlier unsuccessful well drilled at 5-4-15-15-W4M was plugged back to a shallower depth before being turned over to the farmor in accordance with the farmout agreement. By the drilling of these two wells Softrock and partners earned in 16 quarter sections of land. Discussions are currently under way to determine what exploration work will be done on these lands in 1995.

Enchant Prospect

Softrock added another 320 (gross) acres to its inventory of leases along the prolific Enchant Nisku (Arcs) Trend. Softrock (10%), Dekalb Energy Canada Ltd.(50%) and Fort Point Resources Inc. (40%) purchased a crown lease at a March Alberta Crown sale. Subsequent to the purchase Cimarron Petroleum Ltd. completed a gas well on an adjacent section. The well which went on production in late 1994 has produced at rates of up to 1 mmcf/d. In addition, Crestar Energy Inc. has completed two wells on adjacent quarter sections to Softrock's lands on the prospect. Softrock and partners will evaluate the results of these wells prior to conducting any exploration work on the lands. Seismic data will be utilized to select the drilling locations.

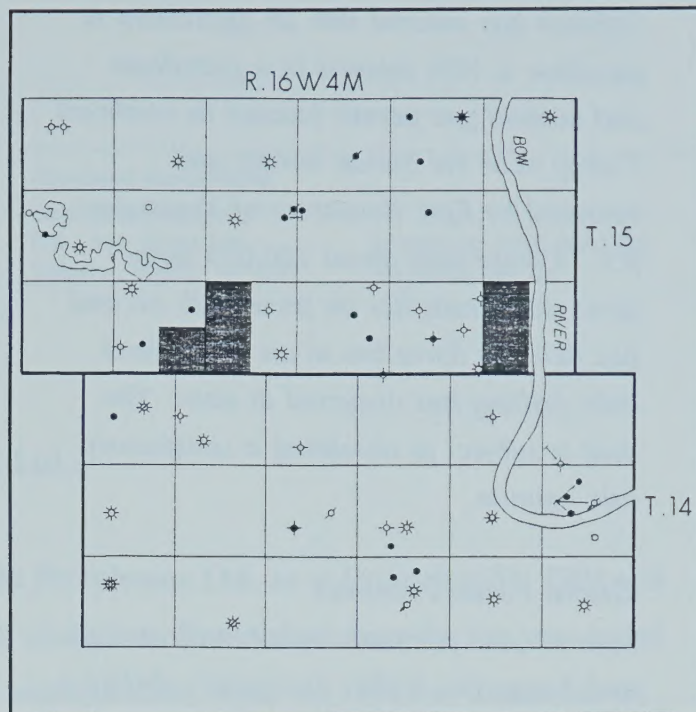


Figure 3: Enchant Prospect

Ankertown Prospect

Near Strome, Alberta, Softrock participated for 40% in the acquisition of 123.47 acres (49.39 net acres) of land along a Glauconitic channel trend. The lands are also prospective in the Basal Quartz Formation. Softrock and partners are currently promoting the prospect to potential partners and are hoping to have this prospect drilled in 1995.

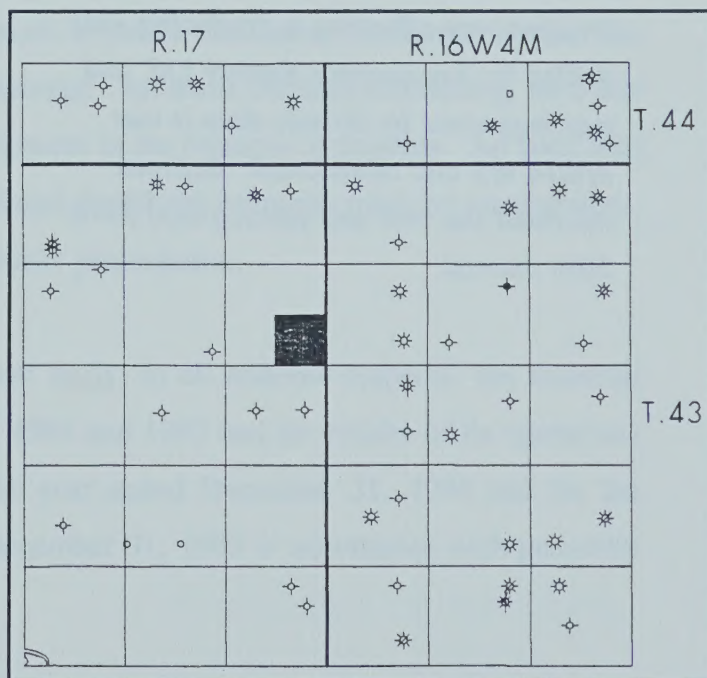


Figure 4: Ankerton Prospect

Turkey Prospect

Softrock has entered into an agreement to purchase a 10% interest in a petroleum and natural gas permit located in southeast Turkey near the Syrian border and operated by Epic Resources of Vancouver, B.C. Comprising about 100,000 gross acres the permit lies on trend with oil and gas fields in Syria but in an area where little drilling has occurred to date. The deal is subject to obtaining a satisfactory title opinion.

Grand Forks Prospect

Softrock and partners Jaya Petroleum Ltd. and Image Oil & Gas Ltd. jointly drilled a well in the Grand Forks area of Alberta. The well Softrock Jaya Grdfks 16-25-11-13-W4 was a development location with the objective of obtaining oil production from the Sawtooth "T" Pool. Although the location was offsetting a producing well drilled by Renaissance Energy Ltd. and was supported by seismic data it was drilled dry and abandoned. Softrock operated the well and participated for a 50% interest.

Production Operations

During 1994 the oil and gas industry experienced large fluctuations in commodity prices. Oil prices started very weak in January (\$11.81/bbl at Grand Forks, \$16.81/bbl at Chigwell) and finished strong (\$18.67 at Grandforks, \$21.18 at Chigwell). Meanwhile, natural gas prices, which were very healthy in January (\$2.30/mcf at Forestburg), declined to \$1.66/mcf by year end due to over supply conditions in the marketplace. Daily oil and gas production volumes decreased by roughly 15% compared to 1993 due to natural reservoir decline.



Chartered Accountants

2400 Scotia Centre
700 - 2nd Street S.W.
Calgary, Alberta T2P 0S7

Telephone: (403) 267-1700
Fax: (403) 264-2871

AUDITORS' REPORT

To the Shareholders of **Softrock Petroleums Ltd.:**

We have audited the balance sheets of **Softrock Petroleums Ltd.** as at December 31, 1994 and 1993 and the statements of loss and deficit and changes in financial position for the year ended December 31, 1994 and for the period from incorporation, April 26, 1993 to December 31, 1993. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the year ended December 31, 1994 and for the period from incorporation, April 26, 1993 to December 31, 1993 in accordance with generally accepted accounting principles.

Calgary, Alberta
May 5, 1995

Chartered Accountants

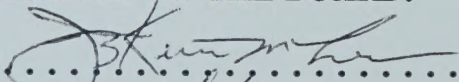
SOFTROCK PETROLEUMS LTD.

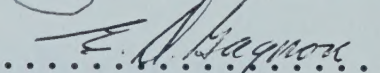
Balance Sheets

As At December 31, 1994 and 1993

	1994 \$	1993 \$
ASSETS		
Current Assets		
Cash	15,775	276,950
Accounts receivable	14,013	22,184
	29,788	299,134
Petroleum and natural gas properties (Note 3)	538,322	401,059
	568,110	700,193
LIABILITIES		
Current Liabilities		
Accounts payable	17,642	44,644
Provision for site restoration	1,000	500
	18,642	45,144
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	670,100	661,100
Deficit	(120,632)	(6,051)
	549,468	655,049
	568,110	700,193

APPROVED BY THE BOARD:

.....  Director

.....  Director

SOFTROCK PETROLEUMS LTD.

Statements of Loss and Deficit

For The Year Ended December 31, 1994 and The
Eight Months Ended December 31, 1993

	1994	1993 (Note 1)
	\$	\$
Revenue		
Oil and gas	121,940	26,873
Royalties	(11,313)	(1,582)
Interest	1,116	861
	<u>111,743</u>	<u>26,152</u>
Expenses		
Oil and gas operating	65,093	8,072
General and administrative (Note 5)	68,395	11,766
Site restoration	500	500
Depletion and depreciation	92,336	11,865
	<u>226,324</u>	<u>32,203</u>
NET LOSS	<u>114,581</u>	<u>6,051</u>
Deficit, beginning of year	6,051	-
Deficit, end of year	<u>120,632</u>	<u>6,051</u>
Loss per share	<u>\$.017</u>	<u>\$.004</u>

SOFTROCK PETROLEUMS LTD.

Statements of Changes in Financial Position For The Year Ended December 31, 1994 and The Eight Months Ended December 31, 1993

	1994	1993
	\$	(Note 1) \$
<hr/>		
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net loss	(114,581)	(6,051)
Items not affecting cash		
Depletion and depreciation	92,336	11,865
Site restoration	500	500
	<hr/> (21,745)	<hr/> 6,314
Changes in non-cash working capital items	(18,831)	22,460
	<hr/> (40,576)	<hr/> 28,774
Financing		
Issuance of share capital, net of issue costs	9,000	661,100
	<hr/>	<hr/>
Investing		
Petroleum and natural gas properties	(229,599)	(412,924)
NET CASH (OUTFLOW) INFLOW	<hr/> (261,175)	<hr/> 276,950
Cash position, beginning of year	276,950	-
Cash position, end of year	<hr/> 15,775	<hr/> 276,950
	<hr/>	<hr/>

Notes to the Financial Statements**For The Year Ended December 31, 1994 and The
Eight Months Ended December 31, 1993**

1. INCORPORATION

Softrock Petroleum Ltd. was incorporated as 564016 Alberta Inc. by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act of Alberta on April 26, 1993. The name of the Corporation was changed to Softrock Petroleum Ltd. (the "Corporation") by Certificate of Amendment dated July 28, 1993. The Corporation purchased 100% of the shares of Petromax Resources Inc. ("Petromax") on October 20, 1993 through the issuance of 2,540,000 shares. On December 29, 1993 the Corporation amalgamated with Petromax.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Petroleum and natural gas properties**Capitalized Costs**

The Corporation follows the full cost method of accounting for oil and gas activities whereby all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on unproved properties, the costs of drilling both productive and non-productive wells, and that portion of administrative expenses applicable to those activities. Also included as part of the capitalized costs are organization costs totalling \$51,225 related to completing the Corporation's "Major Transaction".

Proceeds from the disposal of properties are normally applied as a reduction of the costs unless a significant disposal occurs, in which case a gain or loss is recorded.

Depletion and Deprecation

Depletion of oil and gas properties and depreciation of production equipment is provided using the unit of production method based on estimated proved oil and gas reserves as determined by independent reservoir engineers. The relative volumes of oil and gas reserves and production are converted to a common unit on the basis of relative energy content.

Ceiling Test

The Corporation applies an annual ceiling test to capitalized costs to ensure that such costs do not exceed the estimated value of future net reserves from the production of proved oil and gas reserves calculated at year end prices, less future development costs and administrative, financing, site restoration and abandonment, and income tax expenses. Any reduction in value as a result of the ceiling test is normally charged to operations.

Notes to the Financial Statements
For The Year Ended December 31, 1994 and The
Eight Months Ended December 31, 1993

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future site restoration

The estimated cost of site restoration is based on the current cost of the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The total future liability is estimated to be \$19,225. The annual charge, net of actual expenditures, is provided for on a unit of production basis with the accumulated provision shown as a deferred credit.

3. PROPERTY AND EQUIPMENT

	Accumulated Depletion and Depreciation		1994 Net Book Value	1993 Net Book Value
	Cost			
	\$	\$	\$	\$
Petroleum and natural gas properties	642,523	29,201	613,322	401,059

- a) In accordance with the Company's full-cost accounting method, general and administrative expenses of Nil (1993 - \$51,225), relating to exploration and development of oil and gas properties have been capitalized.
- b) Under an agreement dated October 20, 1993, which was approved as the Corporation's Major Transaction by the shareholders on December 29, 1993, the Corporation acquired, in exchange for the issuance of 2,540,000 common shares, 100% of the voting shares of Petromax, a company owned by certain shareholders of the Corporation. This acquisition has been accounted for as a purchase with the assets and liabilities of Petromax valued at their carrying value at October 20, 1993 as follows:

	\$
Cash	160,000
Oil and gas properties	308,000
	468,000

Notes to the Financial Statements
For The Year Ended December 31, 1994 and The
Eight Months Ended December 31, 1993

3. PROPERTY AND EQUIPMENT (Continued)

- c) As a result of the application of the ceiling test, an additional provision of \$75,000 has been included in the provision for depletion and depreciation.
- d) At December 31, 1994, assets totalling approximately \$290,000 were without a tax basis.

4. SHARE CAPITAL

Authorized

Unlimited number of common shares without nominal or par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series, and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

Issued Capital

	1994		1993	
	Number of Common shares	Amount \$	Number of Common shares	Amount \$
Balance, January 1	6,430,000	661,100	-	-
Issued on incorporation for cash (a)	-	-	2,000,000	50,000
Issued for cash (b)	-	-	1,800,000	134,100
Option exercised (b)	90,000	9,000	90,000	9,000
In exchange for purchase of Petromax (c)	-	-	2,540,000	468,000
Balance, December 31,	6,520,000	670,100	6,430,000	661,100

Notes to the Financial Statements
For The Year Ended December 31, 1994 and The
Eight Months Ended December 31, 1993

4. SHARE CAPITAL (Continued)

- (a) The 2,000,000 common shares were issued on May 29, 1993 and are subject to an escrow agreement.
- (b) Under a public offering dated September 17, 1993 the Corporation issued 1,800,000 common shares at a price of \$.10 per share for total proceeds of \$180,000 before agent's commission and expenses of \$45,900. Pursuant to the agency agreement, the agent was granted an option to purchase 180,000 common shares at a price of \$.10 per share, 90,000 of which were purchased in 1993 and 1994.
- (c) The 2,540,000 common shares which were issued in exchange for 100% of the voting shares of Petromax (see Note 2) are subject to an escrow agreement.

Stock Option

The Corporation has established a stock option plan for the benefit of directors, officers, key employees and consultants of the Corporation. On July 8, 1993, options were granted for an aggregate of 290,000 common shares at a price of \$.10 per share until July 8, 1998.

5. GENERAL AND ADMINISTRATIVE

	1994 \$	1993 \$
Accounting and audit	22,741	1,000
Consulting	3,540	-
Legal	7,188	-
Office	6,884	2,694
Secretarial services	17,703	8,072
Stock exchange and transfer agents	10,339	-
	68,395	11,766

6. SUBSEQUENT EVENT

Effective March 30, 1995, the Company entered into an office lease agreement with the following annual payments required:

	\$
1995	4,183
1996	5,578
1997	5,578
1998	465

Management

The following is a brief description of key management of the Corporation:

J.B. KEITH McLEAN, P. Land

Mr. Mclean has been an independent land consultant for the past 42 years and is a member of the Canadian Association of Petroleum Landmen (CAPL). He is the founder and president of McLean Oil & Gas Limited, a petroleum land consulting firm also involved in the exploration and development of oil and gas reserves in Western Canada. He has been involved at various times in most areas of major oil and gas exploration activity in Canada and parts of the USA as well.

E. DENIS GAGNON, P. Geol.

Mr. Gagnon has been a professional geologist and independent oil consultant for the past 36 years and is a member of the Canadian Society of Petroleum Geologists (CSPG), the American Association of Petroleum Geologists (AAPG), and the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA). His main responsibilities have included supplying detailed technical analysis of hydrocarbon provinces of the Western Canadian Basin for the generation of oil and gas drilling prospects. He is founder and President of Edouard Resources Ltd., an Alberta corporation, with primary interest in finding and developing oil and gas reserves. He has been directly responsible for the discovery of several million barrels of oil in Southern and Northern Alberta and several billion cubic feet of gas in Central Alberta.

NICK TAYLOR, P. Geol.

Mr. Taylor is a professional geologist and member of the American Association of Petroleum Geologists (AAPG) and Liberal member of the Legislative Assembly of Alberta. He was founding President and Manager of Lochiel Exploration Ltd. from 1965 to 1986. Lochiel was a Canadian oil and gas exploration and development company that had operations in 20 countries. Mr. Taylor is currently President of Cariad Exploration Ltd., Northwest Sulphur Ltd. and Citizens Pipeline Ltd.

CLIFFORD R. CHANT, P. Geol.

Mr. Chant is Chairman and President of Image Oil & Gas Ltd., a petroleum exploration and production company active in generating oil and gas prospects in Alberta and participating in drilling of same. He has been involved in the oil business for the past 38 years, mostly within Alberta. He was employed by Chevron Standard Ltd. for 13 1/2 years in the area of exploration, development, economic evaluations, and mechanical well log analysis. He was employed with two small independent oil companies and was primarily involved with exploration activities. He served as Exploration Manager for a privately owned petroleum exploration and development company overseeing exploration and development operations and generating drilling prospects. Mr. Chant is a member of the Canadian Society of Petroleum Geologists (CSPG), and the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

ROBERT P. CURR, P. Geol.

Mr. Curr has 31 years of petroleum exploration experience with a number of large and small companies in all phases of oil and gas development in Western Canada, the Arctic Islands, the North Sea, the Middle East, and Italy. In 1977 he founded Legend Oil and Gas Co. Ltd., a private oil and gas firm engaged in all phases of oil and gas production, property acquisitions, seismic, and drilling operations. Mr. Curr is a director of Epic Resources (B.C) Ltd. and Safari International Resources Ltd. He is a member of the Professional Engineers of Alberta, American Association of Professional Geologists (AAPG), and Canadian Association of Professional Geologists and Geophysicists.

Corporate Information

Officers

J.B. Keith McLean, P.Land,
President and C.E.O.

E. Denis Gagnon, P.Geol
Secretary Treasurer and C.F.O.

Directors

J.B. Keith McLean, P.Land
E. Denis Gagnon, P.Geol
Robert Curr, P.Geol
Nick Taylor, P.Geol
Clifford R. Chant, P.Geol

Auditor

Deloitte & Touche
2400, 700-2nd Street S.W.
Calgary, Alberta
T2P 0S7

Solicitors

McLeod & Company
800, 11012 Macleod Trail S.
Calgary, Alberta
T2J 6A5

Bankers

Canadian Imperial Bank of Commerce
Bankers Hall, 855-2nd Street S.W.
Calgary, Alberta
T2P 2P2

Transfer Agent and Registrar

Montreal Trust
411-8th Avenue S.W.
Calgary, Alberta
T2P 1E7

Head Office

#900, 736-8th Avenue S.W.
Calgary, Alberta
T2P 1H4

Stock Exchange

Alberta Stock Exchange
Trading Symbol - STZ

